

## **Around Town with the Town Manager # 46**

During my tenure these past 11 years the Selectboard and Town Administration have worked to provide its citizens quality services with a great awareness to contain the costs of its services. To date the voters have approved each of the budget requests since 2001. With this budget I have received minimal support for the proposed FY 2013 budget. I suspect this lack of support may be the result of a lack of knowledge about the factors driving the increases in the town's budget request for Fiscal Year 2013 beginning July 1, 2012.

The proposed expenses for next year's budget is 4.2% above last year's approved budget. However, the proposed effect of this budget request will be a tax increase of 5.7%. The difference results from a decreased reliance on money to be taken from the Fund Balance. During the past several years beginning in 2008, the Selectboard has budgeted money each year from the Fund Balance in order to lower the growth of tax rates.

The purpose of a Fund Balance is twofold. First it is the "repository" of unexpended taxes that were not used by the town as authorized by the voters. The question becomes should town have returned these moneys to the taxpayers by lowering taxes the following year? The answer is "yes, **BUT**" the second purpose of the Fund Balance is to be a "rainy day" fund for unanticipated emergencies or disasters. Sound (good) accounting practices for municipal governments is to retain and have in reserve sufficient money to cover between 5% and 15% of an approved budget's operating expenses. More conservative advice is to have a reserve to cover the costs of operating the government for two months without any tax revenues. For an eleven million dollar budget the Fund Balance should have a reserve between \$550,000 and \$1,650,000. Two months reserves would equal \$1,833,333. As an example of a recent "unanticipated emergency" the flood waters of last Spring significantly eroded a portion of East Lakeshore Drive that it was necessary to repair the bank supporting the roadway. Cost \$500,000. Although this money will be refunded by FEMA the Town had the money available to immediately proceed to repair the road. We did not have to seek a bond, borrow money directly from a bank or seek a grant.

Over the past several years the Selectboard has budgeted the Fund Balance to offset higher operating costs of the municipal government as a means to keep taxes lower than what was necessary to fully fund the operations of town. Concurrently the town did not spend those moneys in past years because the Town had four police officers called to active military duty. This year they are safely back and the town will spend the budget authorized fund balance reserve. Over the next three years if the town continues the same rate of drawdown the fund balance reserves the town will have only a minimum balance of \$500,000. A sum not sufficient to cover most unanticipated emergencies that have historically occurred in Town.

After prolonged debate during December and January the Selectboard and Town Administration jointly came to the conclusion that the town's best interests would be served by (1) cutting the town's operating budget, (2) significantly decreasing the town's dependency on

the Fund Balance beginning for the Fiscal Year 2013 budget and (3) have the Town Manager raise revenues by \$135,000. The combination of these three tasks allows the town's requested budget to be decreased by \$299,000 as was the town's reliance on the Fund Balance from \$341,600 to \$135,000. By doing this over the course of the next two years the town will lower the Fund Balance from 15% to about 7.5% of the operating budget. Concurrently, with the reduction in expenses and an increase in revenues the town will hopefully avoid a huge spike in a tax increase next year or the year after.

This \$299,000 change includes a reduction in employment hours for people in the town Manager's Office, The Assessor's Office and Library. Overtime was reduced in the Finance Department and significantly reduced in the Police Department. Also cut were seasonal employees in the Highway and Parks Divisions. The town also eliminated air packs for the Technical Rescue team, consultant based studies for the Recreation and Community & Economic Development Departments. The town will also need to reduce, personnel development costs, support of the Town's Recreation Program fund, cemetery maintenance, tree maintenance in town's rights of way, flowers for parks, and expenses associated with running the Assessor's Office and the town's audit expenses. These items representing 2.7% of the proposed operating budget may not seem significant but by year's end they will be visible and a portend of future problems to townspeople's expectations of the service quality they have come to expect.

Local newspapers have made note of salary increases for police and civilian employees of the town. The town's salaries/wages are driven by negotiations with two unions. The negotiations are "formatted" by law and an "evergreen" clause in an expiring contract. This evergreen clause is a product of negotiations many years before this writer's tenure. Like all citizens, both the town as employer and its workers as employees, are dealing with the costs of inflation and health insurance. The cost of living increased by 3.09% for FY 12. Health insurance increased by 15%. The town made a strategic decision to have employees paying a portion of the premium as well as a portion of the deductible on a High Deductible insurance plan as a means of having employees share more of the cost of rising premiums. To their credit the unions did not argue or resist their members' responsibility of bearing more of the rising costs of health insurance. Negotiations are the means to "find common ground" between competing interests. Discussions with the police association have extended beyond the expiration date of the old contract. The evergreen clause and health insurance costs along with overtime policies all played into a very complicated scenario. If citizens look over the 18 month life of the contract the average pay increase for police officers is (about) 3.62%. Substantial yes, but not exorbitant given their public safety duties.

Finally for this particular column let me address the observation so often shared with me by my colleagues from the business community – "government should be run like a business". As a former business person, I believe Colchester has been run like a business. Businesses have "retained earnings" and government has (retained taxes) fund balance. In either or both items that "reserved money" is to address unanticipated emergencies and opportunities to assure the financial wellbeing of the entity (business or government). Where they differ is during times of

economic recession or depression. When in a recession or depression people have less money to spend so businesses “cut back” on operating costs to address the loss of demand for their product(s). During that same time government usually sees an increase in demand for its services. Using Colchester alone as an example, from 2008 to the present the town has experienced an increase in its use of parks during the summer time and applications for its summer camps. Also the library has seen an increase in its services with people seeking more time to use the library’s public access computers and staff help to either use the computers or find information to write resumes, find job search engines, etc. Public safety services do not go down during bad economic times nor does road maintenance. Other items like salt, sand, gasoline, natural gas and electricity, highway and park equipment prices all keep rising.

The above mentioned cuts in town budget items of both personnel costs and operational purchases are contrary to the town’s ability to meet some of its citizens’ needs including investment in the economic growth of the town. The town also acknowledges the needs of its (other) taxpayers. We recognize that the town has grown by very few people during the past ten years nor has the Grand List (with one interesting exception that I will address in another column). Regionally, the Federal Government says that Chittenden County has a very low unemployment rate and household income has risen. Our local economy is much stronger than many parts of the nation. The balance we have drawn is to protect the Fund Balance for future unanticipated needs and reduce on a limited basis the past expected quality of services along with a decrease in financial resources to examine current problems that will affect the future

Please call me (264-5501), Joan Boehm (264-5502) or any member of the Selectboard if you have any questions or wish to make any comments about the proposed budget.

Respectfully,  
Al Voegele  
Town Manager